

# Ethics

- Ethics
  - A code of moral standards of conduct for what is “good” and “right” as opposed to what is “bad” or “wrong”.
- Ethical Behavior
  - That which is “right” or “good” in the context of governing moral code.
  - Ethical behavior is value driven

# Ethics

## MODULE GUIDE 4.1

- Ethical behavior is values driven.
- What is considered ethical varies among moral reasoning approaches.
- What is considered ethical can vary across cultures.
- Ethical dilemmas arise as tests of personal ethics and values.
- People have tendencies to rationalize unethical behaviors.

# What Is Business Ethics?

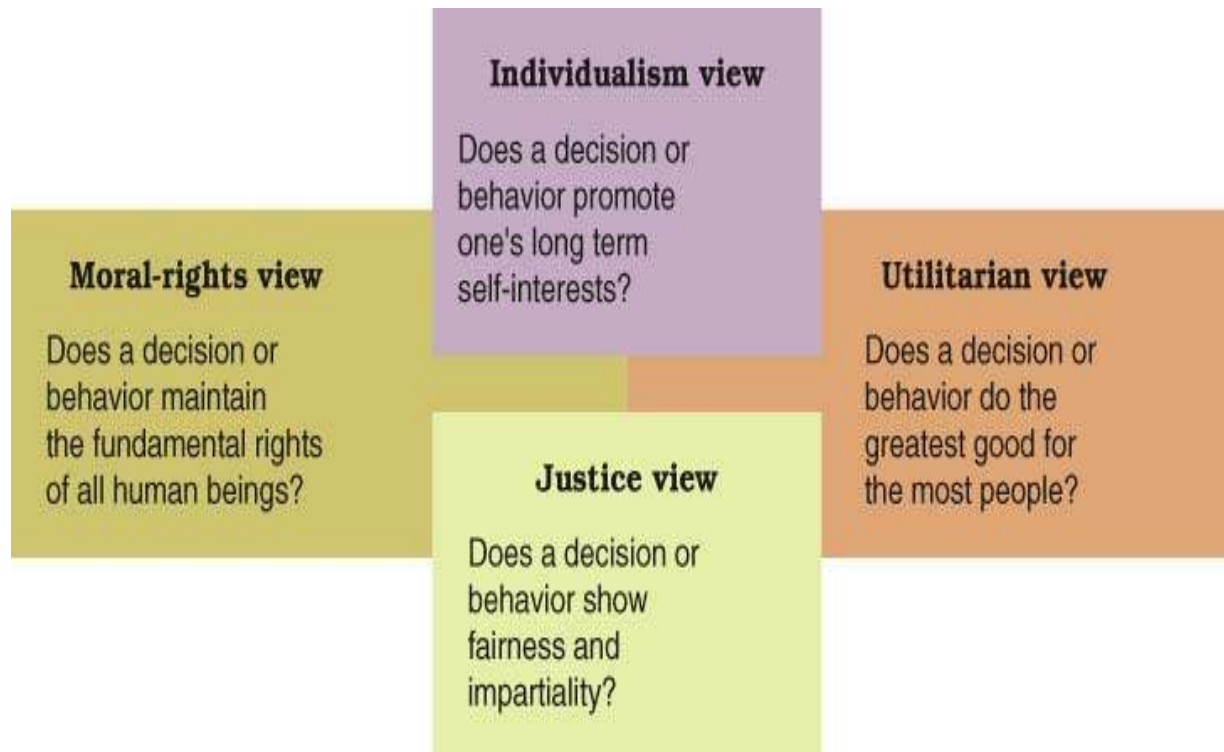
- ***Business ethics*** involves applying general ethical principles and standards to business activities, behavior and decisions
- ***Ethical principles*** in business are not different from ethical principles in general
- ***Business actions*** are ***judged***
  - By general ethical standards of society
  - Not by more permissive standards

# Values

- Values
  - Broad beliefs about what is appropriate behavior
- Terminal Values
  - Preferences about desired end states
- Instrumental Values
  - Preferences regarding the means to desired ends

# Moral Reasoning

- Moral Reasoning
  - Reasons for various ethical practices



# Ethics and Culture

- Cultural Relativism

- Suggest that there is no one right way to behave; cultural context determines ethical behavior



# Ethics and Culture

## Excerpt From Universal Declaration of Human Rights United Nations

- Article 1—All human beings are born free and equal in dignity and right
- Article 18—Everyone has the right to freedom of thought, conscience, and religion
- Article 19—Everyone has the right to freedom of opinion and expression
- Article 23—Everyone has the right to work, to free choice of employment, to just and favorable conditions of work
- Article 26—Everyone has the right to education

# Ensuring a Strong Commitment to Business Ethics in Multinational Companies

- ***Three schools of thought*** about the extent to which ***ethical standards apply across countries*** and cultures exist:
  - Ethical Universalism
  - Ethical Relativism
  - Integrative Social Contracts Theory





# Concept of Ethical Universalism

- According to the *school of ethical universalism . . .*
  - Same standards of what is right and what is wrong are *universal* and transcend most cultures, societies, and religions
  - *Universal agreement on basic moral standards* allows a multinational company to develop a code of ethics that is *applied evenly across its worldwide operations*

# Concept of Ethical Relativism

- According to the *school of ethical relativism . . .*
  - *What is ethical or unethical* must be judged in light of *local moral standards* and can *vary from one country to another*
- Some Companies code of conduct based upon the principle of ethical relativism *assume that local morality is an adequate guide for ethical behavior*



# Drawbacks of Ethical Relativism

- The *ethical relativism rule* of “when in Rome, do as the Romans do” presents *problems*
  - It is *ethically dangerous* for company personnel to assume that local ethical standards are an adequate guide to ethical behavior
    - » *What if local standards condone kickbacks and bribery?*
    - » *What if local standards blink at environmental degradation?*



# Integrative Social Contracts Theory

- According to the *integrative social contracts theory*, the ethical standards a company should try to uphold are governed by both

*A limited number of universal ethical principles* that put ethical boundaries on actions and behavior in all situations

*and*

2. The circumstances of local cultures, traditions, and values *that further prescribe* what constitutes ethically permissible behavior and what does not

# Prioritizing Ethical Standards

- ***Integrative social contracts*** theory provides that ***“first order”*** universal ethical norms always take precedence over ***“second order”*** local ethical norms when local norms are more permissive



# Ethical Dilemma

- Ethical Dilemma
  - A situation that, although offering potential benefits, is unethical.
  - One of the most common ethical dilemmas occurs when a company's culture conflicts with an employee's personal ethics.

# An Ethic Based on Individuals

- Individuals:
  - Have equal political rights
  - Deserve to be treated fairly
  - Have the right to live as they want, as long as they do not harm the rights of others
    - This includes the right to live badly
- A good society is one that treats individuals fairly and protects their rights. This requires:
  - Efficient, non-corrupt government and business
  - A clean, non-toxic environment

# An Ethic Based on Relationships, Family and Community

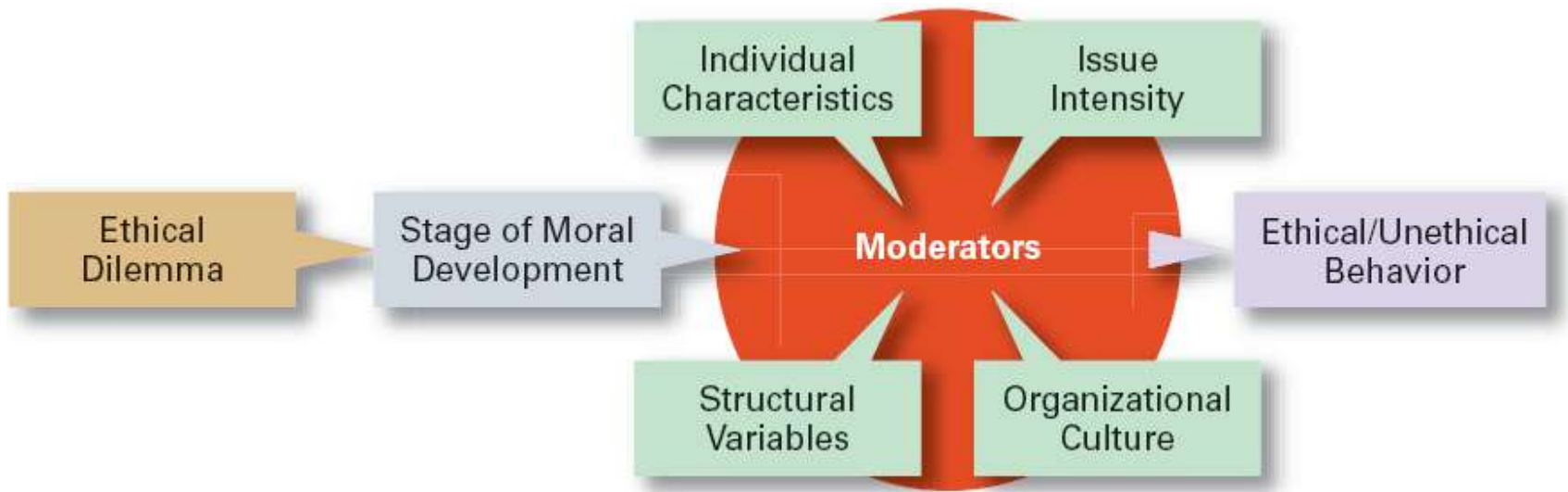
- Relationships, Families, and Communities require
  - Loyalty
  - Honor
  - Friendship
  - Humility
  - Self-sacrifice
  - A clean, non-toxic environment
- A good individual has the qualities that promote stable, long-lasting relationships, families, and communities.



# Factors That Affect Employee Ethics

- Moral Development
  - A measure of independence from outside influences
    - Levels of Individual Moral Development
      - Preconventional level
      - Conventional level
      - Principled level
  - Stage of moral development interacts with:
    - Individual characteristics
    - The organization's structural design
    - The organization's culture
    - The intensity of the ethical issue

# Factors That Affect Ethical and Unethical Behavior



● ● ● **Exhibit 5.7**

# Factors That Affect Employee Ethics (cont'd)

- Moral Development
  - Research Conclusions:
    - People proceed through the stages of moral development sequentially.
    - There is no guarantee of continued moral development.
    - Most adults are in Stage 4 (“good corporate citizen”).

# Stages of Moral Development

Level	Description of Stage
Principled	<ul style="list-style-type: none"> <li>6. Following self-chosen ethical principles even if they violate the law</li> <li>5. Valuing rights of others and upholding absolute values and rights regardless of the majority's opinion</li> </ul>
Conventional	<ul style="list-style-type: none"> <li>4. Maintaining conventional order by fulfilling obligations to which you have agreed</li> <li>3. Living up to what is expected by people close to you</li> </ul>
Preconventional	<ul style="list-style-type: none"> <li>2. Following rules only when doing so is in your immediate interest</li> <li>1. Sticking to rules to avoid physical punishment</li> </ul>

**Source:** Based on L. Kohlberg, "Moral Stages and Moralization: The Cognitive-Development Approach," in T. Lickona (ed.). *Moral Development and Behavior: Theory, Research, and Social Issues* (New York: Holt, Rinehart & Winston, 1976), pp. 34–35.

# Individual Characteristics Affecting Ethical Behaviors

- Values
  - Basic convictions about what is right or wrong on a broad range of issues
- Stage of Moral Development
  - A measure of an individual's independence from outside influences

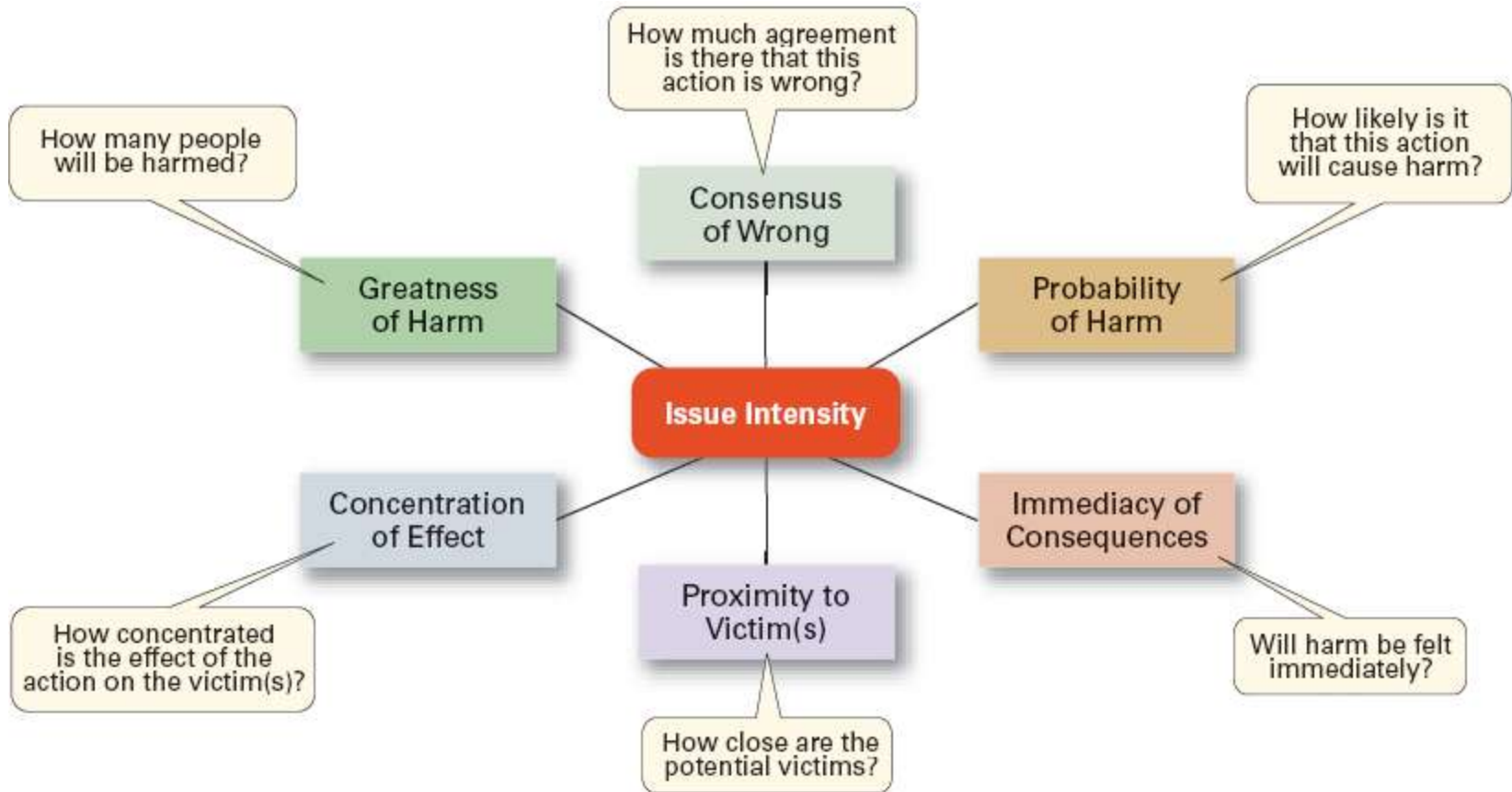
# Individual Characteristics

- Personality Variables
  - Ego strength
    - A personality measure of the strength of a person's convictions
  - Locus of Control
    - A personality attribute that measures the degree to which people believe they control their own life.
    - **Internal locus:** the belief that you control your destiny.
    - **External locus:** the belief that what happens to you is due to luck or chance.

# Structural Variables

- Organizational characteristics and mechanisms that guide and influence individual ethics:
  - Performance appraisal systems
  - Reward allocation systems
  - Behaviors (ethical) of managers
  - An organization's culture
  - Intensity of the ethical issue
- Good structural design minimizes ambiguity and uncertainty and fosters ethical behavior.

# Determinants of Issue Intensity





# Ethical Leadership

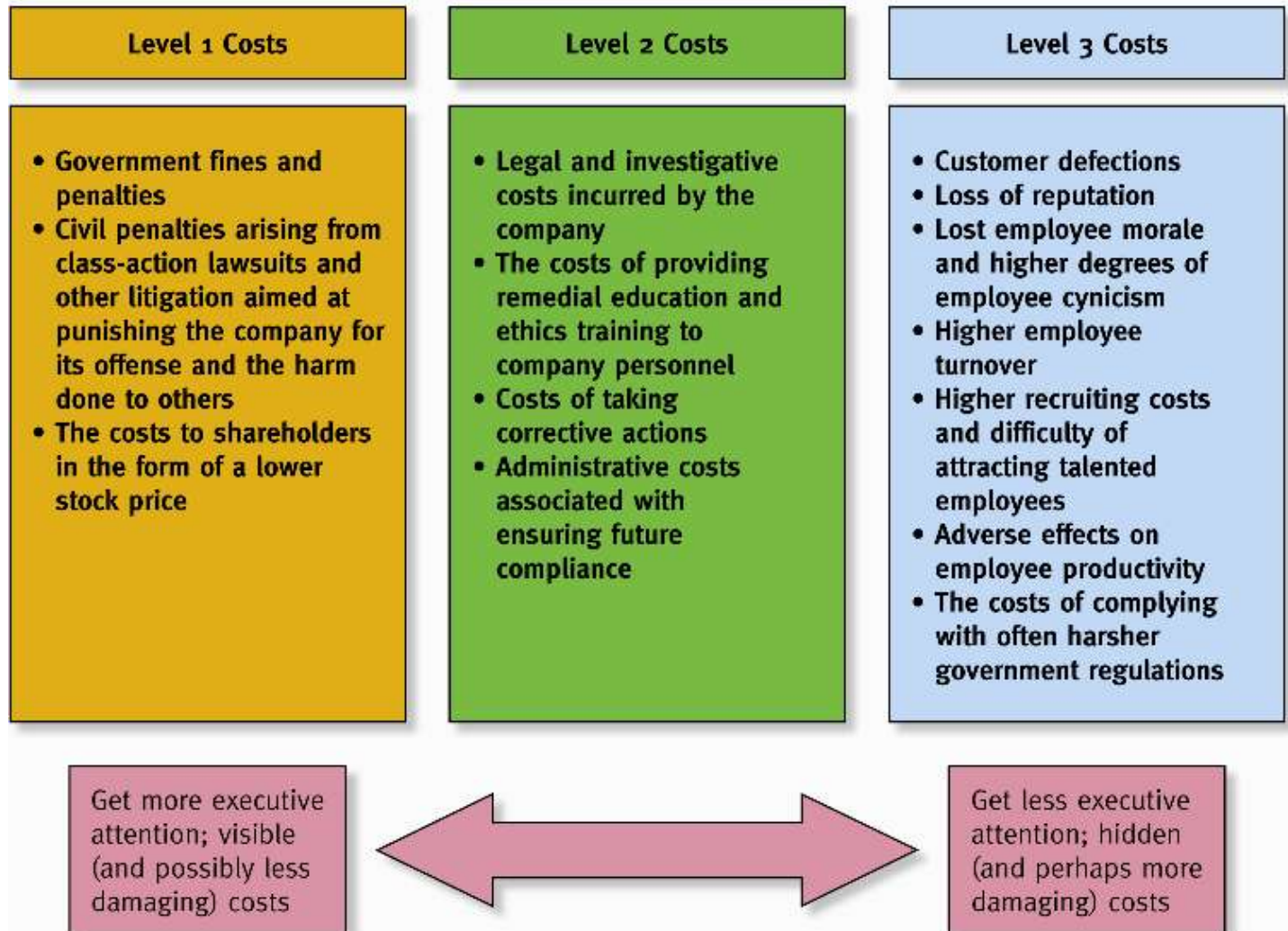
- Managers must provide a *good role model* by:
  - Being ethical and honest at all times.
  - Telling the truth; don't hide or manipulate information.
  - Admitting failure and not trying to cover it up.
  - Communicating shared ethical values to employees through symbols, stories, and slogans.
  - Rewarding employees who behave ethically and punish those who do not.
  - Protecting employees (**whistleblowers**) who bring to light unethical behaviors or raise ethical issues.

# Drivers of Unethical Strategies and Business Behavior

- The view that “the business of business is business, not ethics”
- Overzealous pursuit of personal gain, wealth, and other self-interests
- Heavy pressures on company managers to meet or beat earnings targets
- A company culture that places profits and good performance ahead of ethical behavior



# The Business Case for an Ethical Strategy and Business Behavior



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**“And so the Little Corporate Raider grew to understand that ‘unethical’ was not the same as ‘illegal,’ and he lived happily ever after. The end.”**

**This cartoon implies the importance of shifting from the “ethics of scandal” to the “ethics of strategy”**

**Ethics is simply the proper way to conduct business and, despite what the cartoon says, a responsible business is risk-free.**

ORGANIZATIONAL ETHICS

# MANAGEMENT TIPS

- Checklist for dealing with ethical dilemmas
  - Step 1. Recognize the ethical dilemma.
  - Step 2. Get the facts.
  - Step 3. Identify your options.
  - Step 4. Test each option: Is it legal? Is it right? Is it beneficial?
  - Step 5. Decide which option to follow.
  - Step 6. Ask the “Spotlight Questions”: To double check your decision.
    - “How would I feel if my family found out about my decision?”
    - “How would I feel if the local newspaper printed my decision?”
  - Step 7. Take action.

# Rationalizing Unethical Behavior

- Four reasons:
  - 1. “What I’m doing is not really illegal.”
  - 2. “My behavior is in everyone’s best interests.”
  - 3. “Nobody will ever find out what I’ve done.”
  - 4. “The organization will protect me.”

# Organizational Ethics

## MODULE GUIDE 4.2

- Personal and contextual factors influence ethical conduct
- Training in ethical decision making may improve ethical conduct
- Protection of whistleblowers may encourage ethical conduct
- Managers acting as positive role models may motivate others toward ethical conduct
- Formal codes of ethics set standards for ethical conduct

# Ethics Training

- Ethics Training
  - Seeks to help people understand the ethical aspects of decision making and to incorporate high ethical standards into their daily behavior.
- Code of Ethics
  - A formal statement of values and ethical standards



# Ethics Training

- Spotlight Questions
  - Highlight the risk of public exposure of one's actions:
    - “How would I feel if my family found out about my decision?”
    - How would I feel if the local newspaper printed my decision?

# Whistleblowers

- Whistleblowers
  - Persons who expose organizational misdeeds in order to preserve ethical standards and protect against wasteful, harmful, or illegal acts.
  - Many whistleblowers were / are fired for their actions.
  - State and federal laws now offer some protection

Study Question 3: How can high ethical standards be maintained?

## ➤ Whistleblowers

- Expose misdeeds of others to:
  - Preserve ethical standards
  - Protect against wasteful, harmful, or illegal acts
- Laws protecting whistleblowers vary

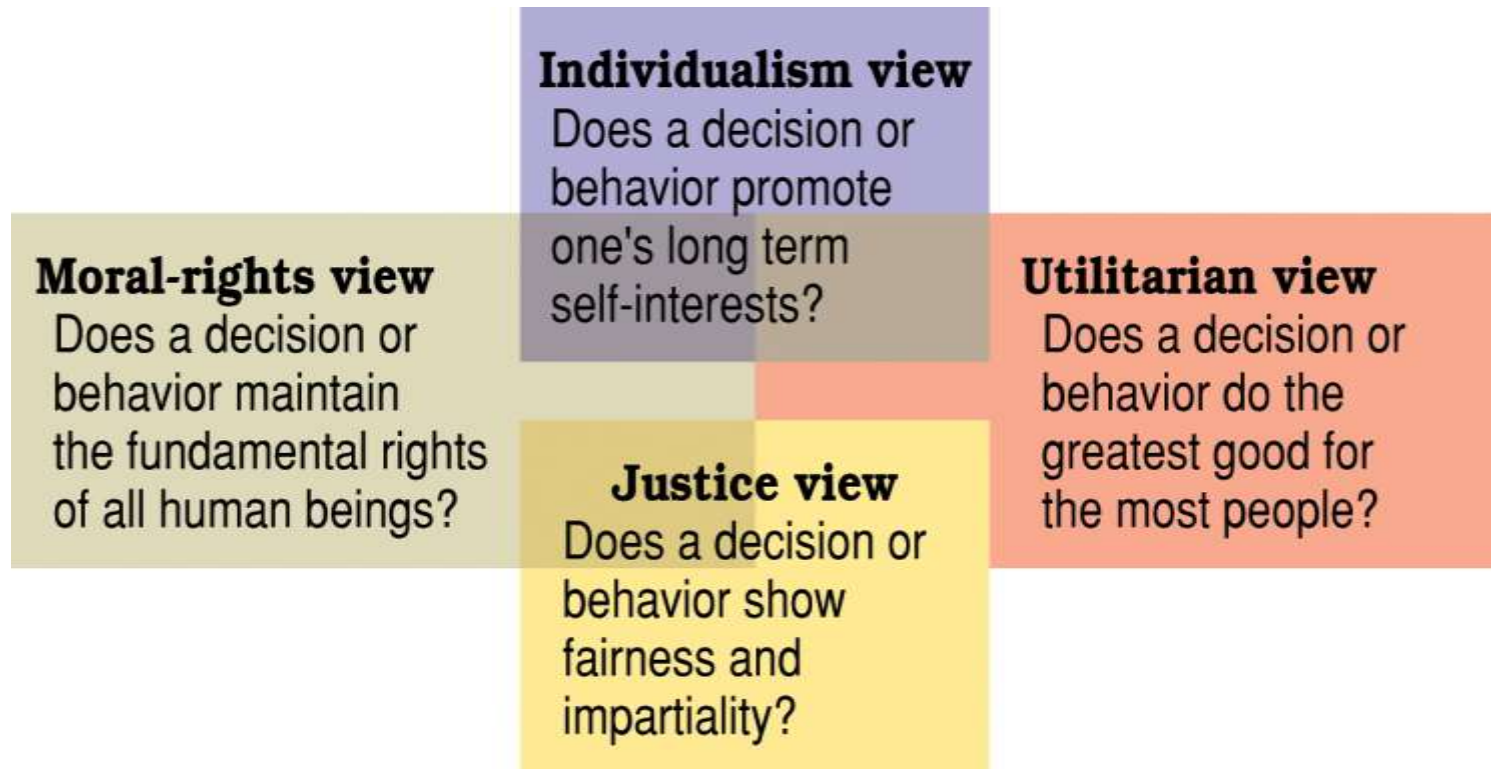
## Study Question 3: How can high ethical standards be maintained?

- Barriers to whistleblowing include:
  - Strict chain of command
  - Strong work group identities
  - Ambiguous priorities
- Organizational methods for overcoming whistleblowing barriers:
  - Ethics staff units who serve as ethics advocates
  - Moral quality circles

# Managers

- Management Behavior
  - In order to have a positive impact on ethical conduct throughout an organization, those at the top must walk the talk.

Figure 2.1 Four views of ethical behavior.



## Study Question 1: What is ethical behavior?

### ➤ Cultural issues in ethical behavior:

#### – Cultural relativism

- Ethical behavior is always determined by cultural context.

#### – Cultural universalism

- Behavior unacceptable in one's home environment should not be acceptable anywhere else.
- Considered by some to be ethical imperialism

Figure 2.2 The extremes of cultural relativism and ethical imperialism in international business ethics.



*Source:* Developed from Thomas Donaldson, “Values in Tension: Ethics Away from Home,” *Harvard Business Review*, vol. 74 (September-October 1996), pp. 48-62.



# Study Question 1: What is ethical behavior?

How international businesses can respect core or universal values:

## Respect for human dignity

- Create culture that values employees, customers, and suppliers.
- Keep a safe workplace.
- Produce safe products and services.

## Respect for basic rights

- Protect rights of employees, customers, and communities.
- Avoid anything that threatening safety, health, education, and living standards.

## Be good citizens

- Support social institutions, including economic and educational systems.
- Work with local government and institutions to protect environment.

## Study Question 2: How do ethical dilemmas complicate the workplace?

- An ethical dilemma occurs when choices, although having potential for personal and/or organizational benefit, may be considered unethical.
- Ethical dilemmas include:
  - Discrimination
  - Sexual harassment
  - Conflicts of interest
  - Customer confidence
  - Organizational resources

## Study Question 2: How do ethical dilemmas complicate the workplace?

- Ethical behavior can be rationalized by convincing yourself that:
  - Behavior is not really illegal.
  - Behavior is really in everyone's best interests.
  - Nobody will ever find out.
  - The organization will “protect” you.

## Study Question 2: How do ethical dilemmas complicate the workplace?

### ➤ Factors influencing ethical behavior include:

- The person
  - Family influences, religious values, personal standards, and personal needs.
- The organization
  - Supervisory behavior, peer group norms and behavior, and policy statements and written rules.
- The environment
  - Government laws and regulations, societal norms and values, and competitive climate in an industry.

Figure 2.3 Factors influencing ethical managerial behavior—the person, organization, and environment.



Study Question 3: How can high ethical standards be maintained?

➤ Ethics training:

- Structured programs that help participants to understand ethical aspects of decision making.
- Helps people incorporate high ethical standards into daily life.
- Helps people deal with ethical issues under pressure.

## Study Question 3: How can high ethical standards be maintained?

### ➤ Ethical role models:

- Top managers serve as ethical role models.
- All managers can influence the ethical behavior of people who work for and with them.
- Excessive pressure can foster unethical behavior.
- Managers should be realistic in setting performance goals for others.

## Study Question 3: How can high ethical standards be maintained?

### ➤ Codes of ethics:

- Formal statement of an organization's values and ethical principles regarding how to behave in situations susceptible to the creation of ethical dilemmas.

### ➤ Areas often covered by codes of ethics:

- Bribes and kickbacks
- Political contributions
- Honesty of books or records
- Customer/supplier relationships
- Confidentiality of corporate information



## Study Question 3: How can high ethical standards be maintained?

### ➤ Checklist for dealing with ethical dilemmas:

- Recognize the ethical dilemma
- Get the facts
- Identify your options
- Test each option: Is it legal? Is it right? Is it beneficial?
- Decide which option to follow
- Double-check decision by asking “spotlight” questions:
  - “How would I feel if my family found out about my decision?”
  - “How would I feel about this if my decision were in the local news?”
- Take action

Study Question 3: How can high ethical standards be maintained?

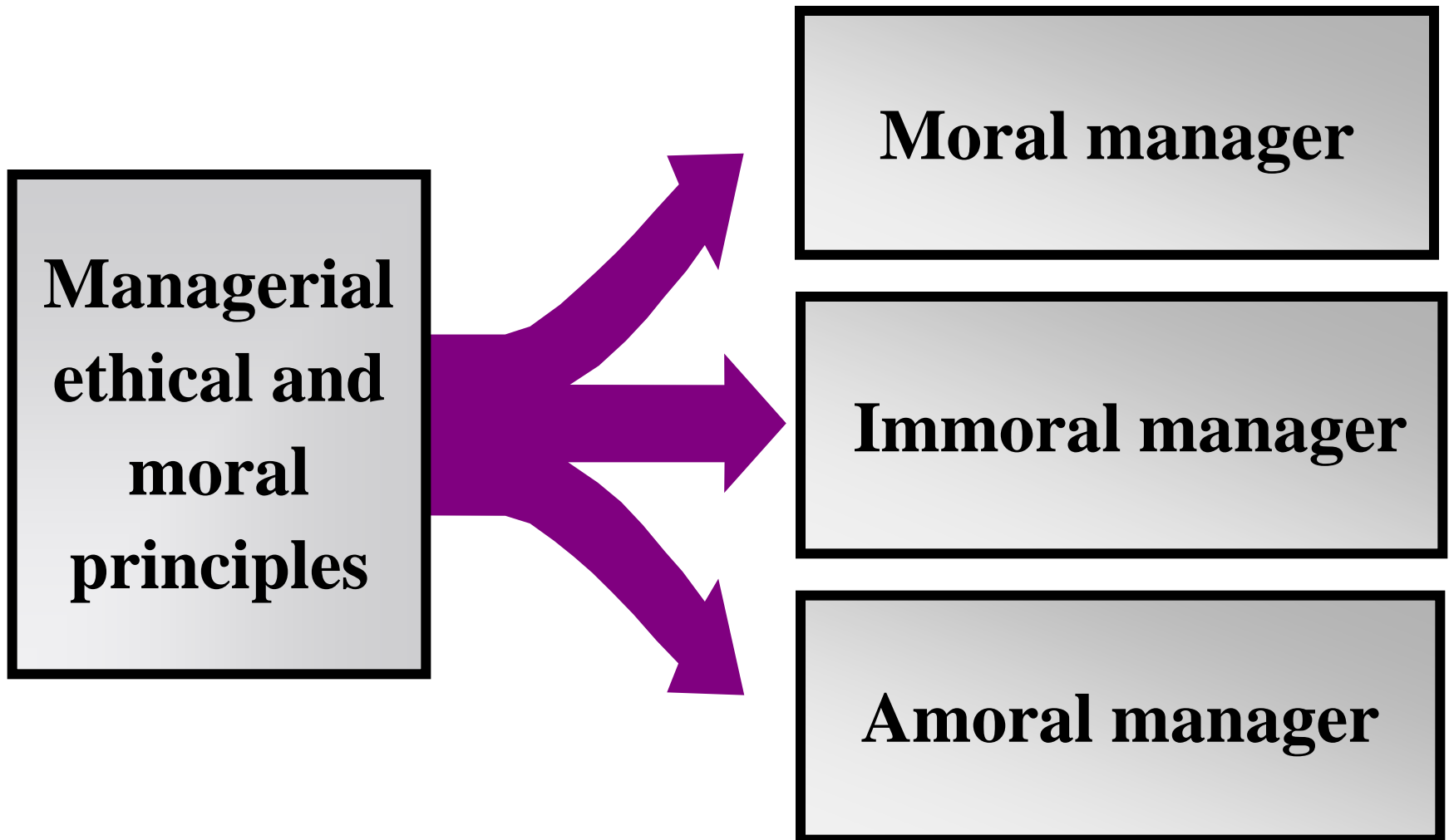
## ➤ Moral Management

- How managers act and communicate as role models
  - Immoral manager
  - Amoral manager
  - Moral manager
- Ethics mindfulness
  - Enriched ethical awareness that affects behavior

# Factors that affect ethical choices

- The Manager
  - Brings specific set of values to the game
  - Based on Personal needs, family influence, religious background, cultural background
  - The moral stage of development
    - Preconventional level-External rewards and punishment
    - Conventional Level- external expectations of colleagues, friends and family
    - Post Conventional-internal standards and values

# Three Categories of Management Morality



# Characteristics of a Moral Manager

- Dedicated to high standards of ethical behavior in
  - Own actions
  - How the company's business is to be conducted
- Considers it important to
  - **Be a steward of ethical behavior**
  - **Demonstrate ethical leadership**
- Pursues business success
  - Within confines of both letter and spirit of laws
  - With a habit of operating well above what laws require



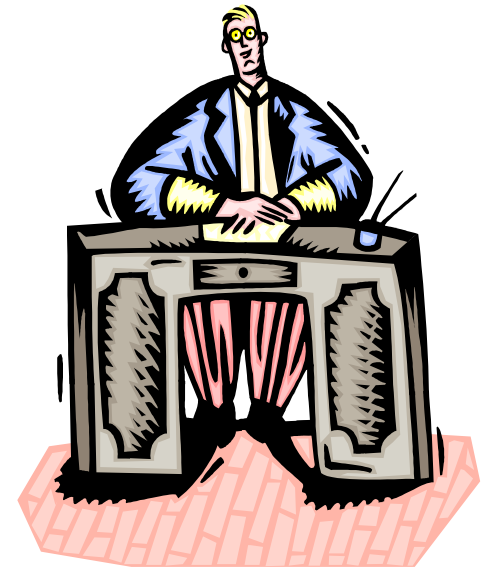
# Characteristics of an Immoral Manager

- Actively opposes ethical behavior in business
- Willfully ignores ethical principles in making decisions
- Views legal standards as barriers to overcome
- **Pursues own self-interests**
- Is an example of capitalistic greed
- Ignores interests of others
- **Focuses only on bottom line – making one's numbers**
- Will trample on others to avoid being trampled upon



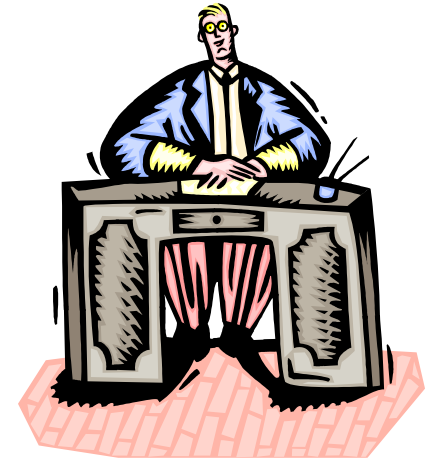
# Characteristics of an Intentionally Amoral Manager

- Believes business and ethics should not be mixed since **different rules apply to**
  - **Business activities**
  - **Other realms of life**
- Does not factor ethical considerations into own actions since business activity lies outside sphere of moral judgment
- **Views ethics as inappropriate for tough, competitive business world**
- Concept of right and wrong is lawyer-driven (what can we get by with without running afoul of the law)



# Characteristics of an Unintentionally Amoral Manager

- Is blind to or casual about ethics of decision-making and business actions
- Displays lack of concern regarding whether ethics applies to company actions
- **Sees self as well-intentioned or personally ethical**
- Typical beliefs
  - Do what is necessary to comply with laws and regulations
  - **Government provides legal framework stating what society will put up with—if it is not illegal, it is allowed**





# Business Ethics & Corporate Responsibility

BE ... the application of ethical values to business behaviour

CR ...the framework for demonstrating and implementing value based commitments

Business Ethics  
is about ...

Ethical Values



**Ethical commitments / Corporate Responsibility**

- to whom we have responsibilities
- ways of working
- relationships with stakeholders

Governance

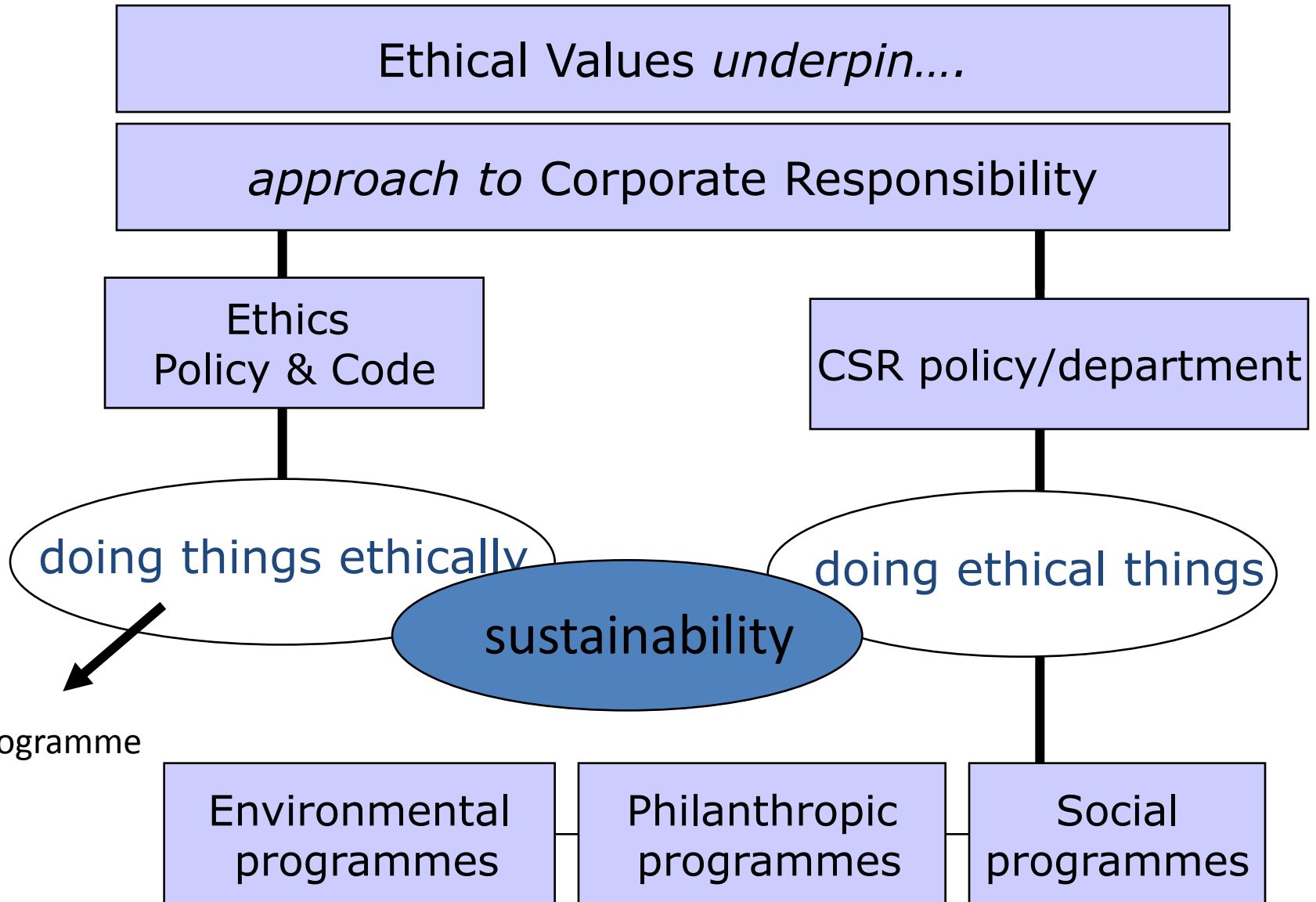
Core business  
strategy

Goals,  
Policies & Codes



Business Behaviour  
*the way we do business*

# Business Ethics is not the same as CSR



## 2. Recognising Ethical Issues, Challenges, Dilemmas

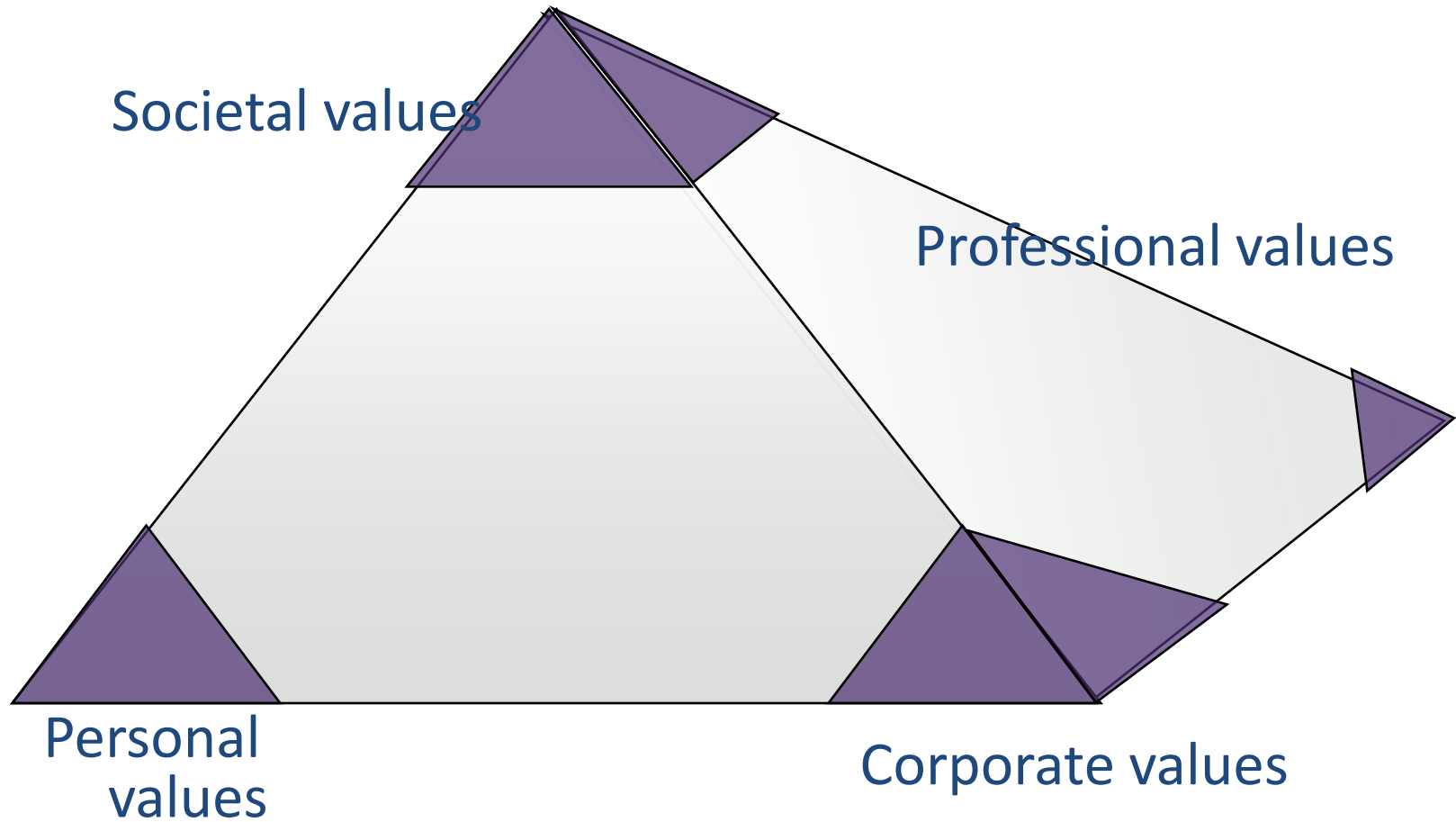
# What are the current business ethics topics?

- Whistleblowing
- Ethical Investment
- Use of company computers
- Lobbying and political donations
- Environmental responsibility
- Human rights
- Conflicts of interest
- Employee Security
- Bribery, corruption
- Data protection
- Gifts & hospitality
- Exec Pay
- Governance
- Work/home balance
- Money laundering
- Procurement/ Supply chain
- Child, sweatshop labour
- Facilitation payments
- Advertising and sales practices
- Harassment, discrimination & bullying

# A quick classification of business ethics problems

- Ethics of the economic system  
*Profit v service*
- Ethical issues in the boardroom  
*Values, governance, environment etc.*
- Ethical issues facing managers  
*People issues, privacy, incentives etc.*
- Ethical dilemmas of employees  
*Speaking up, bullying work/home*

# Values and ethical dilemmas for individuals



# How do I know when a business problem involves ethics?

- When the issue is not covered by the law
- If it raises moral problems for you or a member of the team
- When a correct and incorrect response is not clear
- If you are forced to consider where your obligations and duties lie.



# Some red flags

***If you hear someone say any of these, you can expect something unethical is about to happen!***

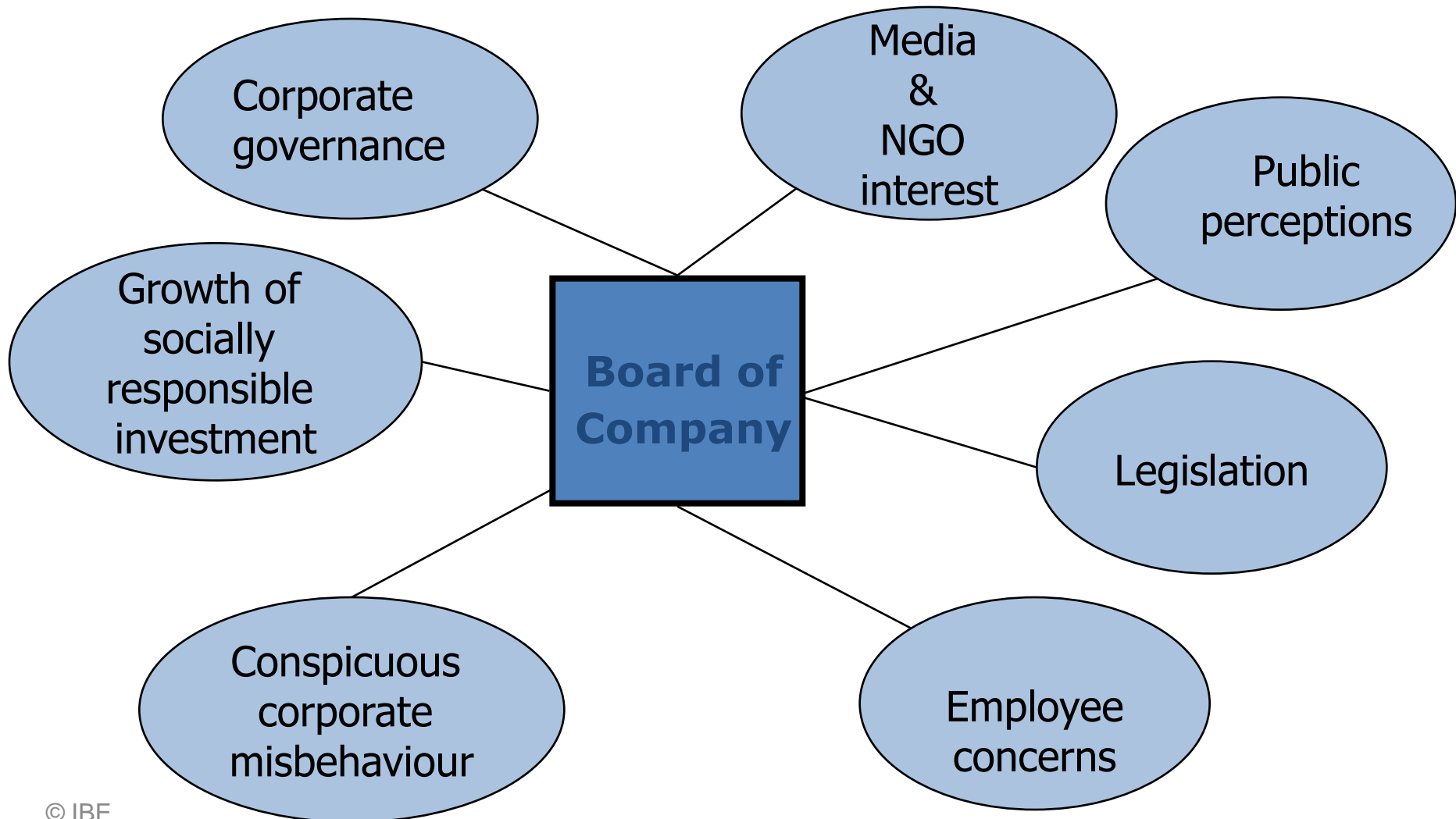
- “Well, maybe just this once.”
- “No one will ever know.”
- “It doesn’t matter how it gets done as long as it gets done.”
- “It sounds too good to be true.”
- “Everyone does it.”
- “Don’t worry, it’s part of the culture.”
- “Shred that document.”
- “We can hide it.”
- “No one will get hurt.”
- “What’s in it for me?”
- “There are already enough competitors in this market.”
- “This will destroy the competition.”
- “We didn’t have this conversation.”
- “I don’t want to know.”

# Ethical tests for a business decision

- **Transparency:**  
Do I mind others knowing what I have decided?
- **Effect:**  
Who does my decision affect or hurt?
- **Fairness:**  
Would my decision be considered fair by those affected?

# **3. Why is the subject increasingly important?**

# Some pressures on organisations to address their business ethics



# Good Corporate Governance

## *Standards of Conduct*

**It is important that all employees should know what standards of conduct are expected of them. We regard it as good practice for boards of directors to draw up codes of ethics or statements of business practice and to publish them both internally and externally**

1992 The Committee on the Financial Aspects of  
Corporate Governance  
(The Cadbury Committee)

# Ethical Dilemmas or Landmines

- Like unexploded bombs, must be defused before they blow up in our faces
  - Company expectations for employee commitment
  - Pressure from managers and co-workers
  - Opportunities for unethical behavior
  - Internal pressure in the form of personal ambitions
  - External forces such as family needs
- Personal reputations, legal standing, company's public name are at risk
- Much is at stake for companies and individuals in facing ethical dilemmas